How Much Will You Spend When You Retire?

Will you have enough money to make ends meet?

You may have heard that people spend less once they are retired. Statistically, that is true. The question is whether a retiree has enough income to meet his or her expenses.

Ideally, retirees should be able to live comfortably on 70-85% of their end salaries and draw their retirement fund down no more than 4-5% per year during a 30-year retirement. Are these two objectives realistic for the average retiree household?[1,2]

According to the most recently published Bureau of Labor Statistics data, a household maintained by someone 65 or older had a mean income of $46,627 in 2015 and a disposable income of $42,959 after taxes. That average retiree household spent an average of $44,664 in 2015. So, on average, seniors spent more than they had on hand.[2,3]

Basic math tells us that 46,627 is roughly 70% of 66,500 and roughly 85% of 55,000. So, a retirement income of $46,627 would correspond to about 70-85% of a typical middle-class salary in 2015. In other words, it appears all too easy for the middle-class worker to transform into the financially challenged retiree.

Why is the average retiree household spending more than its net income? Three possible reasons come to mind. One, the cost of living may be rising faster for retirees than some assume. Social Security bases its cost-of-living adjustments to retiree benefits on changes in the CPI-W (Consumer Price Index for Urban Wage Earners and Clerical Workers). Some economists think Social Security should use a different yardstick. Two, annual health care costs may suddenly jump for some seniors. Three, it is not unusual for new retirees to spend more than they anticipate as they travel and enjoy life.[4]

How do average retiree expenses break down? Housing costs accounted for $15,529 of that aforementioned $44,664 in 2015 household expenses. Transportation costs took another $6,846. Health care costs made up $5,756 of the total ($3,900 of that went to health insurance, $672 for medicines). Another $1,298 went for mortgage costs.[2,3]

When you spend more than you make in retirement, you dip into your savings. That fact takes us straight toward a larger problem.

Most baby boomers are approaching retirement with a savings shortfall. The 2016 Employee Financial Wellness Survey from PwC (PriceWaterhouseCoopers) found that 50% of baby boomers had less than $100,000 in a workplace retirement plan. So, drawing down that amount by 4% a year would bring them less than $4,000 in annual retirement income. Of course, some of these employees will be able to tap IRAs, brokerage accounts, or income streams from other sources – but when your workplace retirement plan savings are that scant after age 50, other sources must compensate mightily. For many retirees, Social Security will not take up the slack. The average projected monthly Social Security benefit for 2017 is just $1,360.[2]

From the numbers in this article, you can glean that the average American retiree faces more than a little financial pressure. If you are a baby boomer who has saved and invested for decades and wants to work longer to give your invested assets a few more years of growth and compounding, you may have above-average prospects for a comfortable retirement.

Citations.

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